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TAGS: PREL PGOV PINR MOPS PARM PE
SUBJECT: BREWING SPY SCANDAL FURTHER TENSES PERU-CHILE RELATIONSHIP

REF: LIMA 1647; LIMA 1635

CLASSIFIED BY: McKinley P. Michael, Ambassador, State, Ambassador
Peru; REASON: 1.4(B), (C), (D)

¶1. (C) Summary: The arrest of a Peruvian Air Force (FAP) noncommissioned officer for alleged spying and passing classified defense information to Chile has brought relations between the two neighbors to a new low point. It also complicates President Garcia's peace initiative aimed at reducing tensions and arms expenditures in the region (ref B). Garcia cut short his participation in APEC to respond to the crisis, and his public statements have been measured in tone but more provocative in content, characterizing Chile as a "banana republic" envious of Peru's economic growth. The "spy scandal" has overtaken news about Chile's arms purchases from the U.S. (ref A), but there is still potential for the U.S. arms sale to resurface. Thus far, Peruvian reaction seems exaggerated given the relatively limited scale of the espionage revealed to date, and suggests political opportunism along with an instinctive reaction to any problem involving Chile. Still, we need to monitor the situation closely and the Ambassador is in touch with the Foreign Minister for this purpose. End Summary.

¶2. (C) The November 13 announcement by Ministry of Defense officials that FAP NCO Victor Ariza Mendoza, had been arrested for allegedly spying and passing classified defense information to Chile has dominated the news for the past several days. The 45-year-old Ariza was reportedly charged with espionage and "treason to the homeland" after receiving monthly payments of \$5,000-\$8,000 for his services over a period of some seven years. Ariza was reportedly exposed after he tried to recruit another NCO to also spy for Chile. Peruvian intelligence officials are trying to establish what type of information Ariza may have provided to Chile and who else might be involved. Security officials have apparently found evidence, including classified documents on the hard drive of his computer. Media reports claim that he had wide access to codes, military, legal, and diplomatic information. According to the national daily "El Comercio", Ariza provided Chile the list of projected FAP defense acquisitions until 2021, under the MOD's "Basic Nucleus" strategic defense plans, as well as the names of FAP intelligence officers.

¶3. (C) The capture and arrest of Ariza, coupled with reports that others may be implicated in a larger network of snooping, have sent Chile-Peru relations into a renewed tailspin. Exacerbated

tensions had already been roiled by a series of recent incidents. These include Chile's "Salitre 2009" military exercises last month, which were initially designed with a concept that Peru found provocative (though this was later changed) and Chile's alleged quiet negotiations with Bolivia regarding access to the sea for the landlocked country. After a promising start, the Garcia government's decision to take its maritime dispute to the ICJ in The Hague in 2007 cooled the relationship considerably. With peaks and troughs, relations have been predictably bumpy since that time, and pivotal confidence building mechanisms - such as the bilateral 2+2 meetings of Foreign and Defense Ministers - have been indefinitely postponed. But the spy story represents a new low point in bilateral relations.

¶4. (C) The story has also complicated President Garcia's peace and security cooperation initiative for UNASUR, aimed at preventing an arms race in the region, reducing military expenditures, formalizing a non-aggression pact and fielding a regional defense force ("Fuerza Sudamericana de Paz e Intervencion"). Production Minister Araoz, who was scheduled to bring the proposal to Chile this week, postponed her visit and is traveling to Uruguay instead.

¶5. (C) President Garcia cut short his participation in the APEC meetings in Singapore to return to Peru and address the fallout of the espionage incident. According to press reports, Garcia also cancelled a scheduled meeting with Chilean President Bachelet on

the margins of APEC, in protest. Upon his return to Peru November 16, Garcia publicly addressed the spy scandal during a noon television broadcast. With a measured tone, Garcia called on Peruvians not to overreact and said that the GOP courts would rely on legal solutions to resolve the issue, just as it had done at The Hague with the maritime dispute. At the same time, he called the act "repulsive," and characterized Chile as a "banana republic" ("repuliqueta") motivated by its envy of Peru's strong economic growth. Meanwhile, Nationalist Party (PN) leader Ollanta Humala called on the government to cancel the free trade agreement with Chile and even break off diplomatic relations. Former PM and likely future presidential candidate Yehude Simon also joined the fray, questioning continued diplomatic relations and calling for the death penalty in the event the alleged spy is convicted in court. MOD Rafael Rey was summoned to November 17 congressional hearings to explain the affair.

Comment:

¶6. (C) Thus far, the "spy scandal" has overtaken news about Chile's arms purchases from the U.S. -- the announced sale of a \$665 million U.S. weapons package to Chile (ref A) -- but there is still potential for the latter "subtheme" to resurface. There has been some speculation that Peru might be using the affair to pressure Chile into throttling back on some of its arms purchases, since the story coincidentally broke on the same day as the U.S. weapons deal was made public. We have also been told that Peru is concerned Chile might not abide by an ICJ decision on the maritime dispute if it favors Peru. Regardless of such possible motives, the "spy scandal" comes at an awkward time, just as Peru has begun to more seriously focus on defeating Shining Path narco-terrorists in the Apurimac-Ene River Valley (VRAE).

MCKINLEY